

Message Text

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ORIGIN EB-08

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TAGS:EFIN, EAID, AR

SUBJECT: BILATERAL WITH ARGENTINA AT THE IDB MEETING

1. AT THE REQUEST OF THE ARGENTINES DEPUTY SECRETARY OF TREASURY CARSWELL HELD BILATERAL DISCUSSIONS WITH ARGENTINE MINISTER OF FINANCE DE HOZ AND CENTRAL BANK PRESIDENT DIZ AT IDB ANNUAL MEETING IN VANCOUVER. MR. DE HOZ GAVE A DETAILED EXPLANATION OF THE EFFORTS MADE BY HIS GOVERNMENT TO RESTORE THE ARGENTINE ECONOMY. HE ALSO PROVIDED AN UPDATE OF THE HUMAN RIGHTS SITUATION IN ARGENTINA AND EXPRESSED THE HOPE THAT THE U.S. WOULD SOON BE ABLE TO SUPPORT LOANS FOR ARGENTINA.

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2. AFTER THE OPENING PLEASANTRIES, MINISTER DE HOZ DISTRIBUTED A BOOKLET ON THE ARGENTINE ECONOMY, WHICH HE DREW ON HEAVILY IN THE ENSUING DISCUSSION. HE STATED THAT ONE OF THEIR PRIMARY GOALS WAS TO HAVE A BUDGET DEFICIT OF ONLY ONE PERCENT OF GDP WHICH WOULD REQUIRE NO CENTRAL BANK FINANCING. THIS WAS TO BE ACHIEVED BY REBUILDING THE TAX SYSTEM AND REDUCING THE BURDEN OF STATE ENTERPRISES, WHICH

WOULD BE RETURNED TO THE PRIVATE SECTOR WHENEVER POSSIBLE.

3. ANOTHER NECESSARY TASK WAS TO BREAK THE INFLATION PSYCHOLOGY OF THE PEOPLE. TO DO THIS DE HOZ EXPLAINED THEY HAD INSTITUTED A LINK BETWEEN WAGE INCREASES AND GREATER PRODUCTIVITY. THE GOVERNMENT SETS THE MINIMUM WAGE FOR AN INDUSTRY. THIS RATE MAY BE EXCEEDED IF PRODUCTION AND PRODUCTIVITY JUSTIFY IT. THE FIRST 45 PERCENT OF AN INCREASE OVER THE MINIMUM IS TAX DEDUCTIBLE BUT ANY MORE THAN THAT MUST COME FROM PROFITS. UNEMPLOYMENT IS LOW SO SOME FIRMS DO PAY MORE THAN THE MINIMUM AND REAL WAGES HAVE INCREASED. THIS HAS REDUCED LABOR UNREST.

4. THE MINISTER EXPLAINED THEY HAD ALSO ALLOWED INTEREST RATES TO RISE ABOVE THE RATE OF INFLATION. THIS HAD INCREASED THE SAVING RATE AND INVESTMENT HAD ALMOST DOUBLED. MR. DIZ ADDED THAT NOW THERE WAS PLENTY OF CREDIT AVAILABLE SO THAT THE GOVERNMENT COULD CONCENTRATE ON MANAGING MONETARY AGGREGATES.

5. ANOTHER GOAL OF THE GOVERNMENT WAS TO GAIN 100 PERCENT SELF SUFFICIENCY IN OIL PRODUCTION. TO THIS END THEY PLANNED TO INVEST 24 BILLION DOLLARS IN OIL PRODUCTION OVER THE NEXT FIVE YEARS. THEY WERE ALSO NOW ISSUING RISK CONTRACT TENDERS TO PRIVATE COMPANIES.

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6. MINISTER DE HOZ ALSO DESCRIBED THE DRAMATIC SWING IN THE ARGENTINE BALANCE OF PAYMENTS AND REPORTED THAT CENTRAL BANK ASSETS NOW STOOD AT OVER 4 BILLION DOLLARS. HE ADDED THEY EXPECTED TO REPAY THEIR IMF GOLD TRANCHE BY SEPTEMBER. IN RESPONSE TO A QUESTION FROM MR. CARSWELL DE HOZ DOWNPLAYED THE IMPORTANCE OF COUNTER VAILING DUTIES IN U.S.-ARGENTINE TRADE RELATIONS. MR. DIZ ADDED THAT ALTHOUGH ARGENTINA HAD FORMERLY HEAVILY SUBSIDIZED EXPORTS THERE HAD BEEN A DRAMATIC CHANGE. ALL EXPORT PREFINANCING WAS NOW DONE ON A DOLLAR BASIS AND ALTHOUGH THE RATES WERE SUBSIDIZED SOMEWHAT IT WAS A RATIONAL SYSTEM. IN FACT HE ESTIMATED SUBSIDIES WERE NOW LESS THAN HALF OF THE TAXES EXPORTERS HAD TO PAY. REALISTIC EXCHANGE RATES WILL ALSO HELP TO SOLVE TRADE PROBLEMS.

7. MINISTER DE HOZ PROVIDED AN UPDATE ON THE HUMAN RIGHTS SITUATION IN ARGENTINA. HE SAID THAT THE WHOLE JUDICIAL PROCESS IN ARGENTINA WAS BEING RE-ESTABLISHED. SPECIAL COMMITTEES WERE REVIEWING EACH CASE AND PEOPLE WERE EITHER BEING FREED OR TURNED OVER TO THE COURTS, WHICH WERE NOW OPERATING SINCE JUDGES NO LONGER FEARED FOR THEIR LIVES. OF COURSE SOME ARRESTS WERE STILL CONTINUING BUT HE BELIVED

THAT THE BACK OF THE TERRORIST MOVEMENT HAS BEEN BROKEN.
HE WAS WORRIED HOWEVER ABOUT A BUILDUP OF TERRORIST ACTIVITY
BEFORE THE WORLD FOOTBALL CUP MATCHES.

8. IN RESPONSE TO A QUESTION, MINISTER DE HOZ ADMITTED
THAT ALTHOUGH NEW ARRESTEES ARE SUPPOSED TO BE BOOKED,
THERE ARE STILL EXAMPLES OF PEOPLE WHO ARE PICKED UP
WITHOUT EXPLANATION, EVEN MEMBERS OF THE GOVERNMENT. HE
HOPED THIS WOULD NOT CONTINUE IN THE FUTURE BUT DECLARED
THERE WAS LITTLE HOPE IN DETERMINING THE FATE OF THOSE WHO
HAD PREVIOUSLY DISAPPEARED. HE BELIEVES MANY ARE PROBABLY
DEAD OR MAY HAVE LEFT THE COUNTRY.

9. U.S. DEL NOTED THAT U.S. ABSTENTION, RATHER THAN
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NEGATIVE VOTE, ON RECENT IBRD LOAN INDICATED RECOGNITION OF
IMPROVEMENT IN ARGENTINE HUMAN RIGHTS SITUATION, AND
EXPRESSED HOPE THAT THE IMPROVEMENTS REPORTED BY THE
MINISTER DE HOZ WOULD CONTINUE. HE RESPONDED BY SAYING HE
LOOKED FORWARD TO THE DAY WHEN OUR ABSTENTIONS ON VOTES
FOR LOANS TO ARGENTINA COULD BE CHARGED TO YES VOTES. HE
CONCLUDED THAT HE FELT THE U.S. AND ARGENTINA SHARED THE
SAME BASIC PRINCIPLES. ARGENTINA HAD BEEN FIGHTING FOR
ITS LIFE BUT HE HOPED THAT IT WAS OVER. HOWEVER HE WORRIED
ABOUT TERRORISM IN OTHER COUNTRIES SUCH AS GERMANY AND
ITALY AND HE BELIEVED THE WORLD MUST LEARN TO DIFFERENTIATE
BETWEEN TERRORISM AND POLITICAL OPPOSITION. VANCE

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